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United Nations Office for Project Services

Annual statistical report on the procurement activities of the United Nations system, 2007*

Goods and services, international project personnel, United Nations volunteers, and fellowships

Executive summary

The Executive Director submits the present report of United Nations system procurement data to the Executive Board pursuant to its decision 2007/38. The complete report may be obtained in the language of submission (English) from the Executive Board secretariat at the United Nations Global Marketplace site (http://ungm.org/default.aspx?pid=87). The report provides details on United Nations system procurement by country of supply.

Total United Nations system procurement under all sources of funding during 2007 was $10.08 billion, which represents an increase of $679.5 million over the previous year. The share of procurement from developing countries declined by 1.3 per cent to 53.5 per cent.

The complete 2007 report contains:

(a) An executive summary featuring a trend analysis of United Nations procurement from developing countries and countries with economies in transition;
(b) Analysis of United Nations contracts placed with companies that are signatories to the Global Compact of the United Nations;
(c) Tables listing combined United Nations system procurement, by country of supply;
(d) Tables listing procurement, by individual United Nations organization and by country of supply;
(e) Summary sheets on procurement from countries members of the Development Assistance Committee of the Organisation for Economic Co-operation and Development;
(f) Summary sheets on procurement from the top 20 developing countries and countries with economies in transition;
(g) The top 10 product groups/items procured by the United Nations system;
(h) A section covering major equipment and services (over $30,000) procured by the United Nations system; and
(i) A summary of project personnel, by nationality.

* The compilation of data required to provide the Executive Board with the most current information has delayed submission of

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Introduction

1. The annual statistical report on the procurement activities of the United Nations system, 2007, was prepared by the United Nations Office for Project Services (UNOPS), which has assumed responsibility for collecting and compiling United Nations system-wide procurement data following the partial merger between UNOPS and the Inter-Agency Procurement Services Office in January 2008.

2. The 2007 report analyzes procurement from developing countries and countries with economies in transition, and examines United Nations system performance, in response to General Assembly resolution 57/279 of January 2003 on procurement reform, which encouraged United Nations organizations to increase opportunities for vendors in. developing countries and countries with economies in transition. Significant progress has been made towards achieving that objective (figures 3-8, below, provide details).

3. In addition, the 2007 report looks at procurement by United Nations organizations from vendors that support the 'Global Compact'. The Compact measures engagement by the United Nations system with companies that take corporate social responsibility seriously, an increasingly important consideration in the global marketplace. While United Nations organizations give no preferential treatment to Compact signatories, the percentage of registered Compact vendors receiving United Nations contracts increasing.

4. The 2007 statistical report compiles information supplied by 33 United Nations organizations. UNOPS relies entirely on the cooperation of the reporting entities. In general, response rates were satisfactory, and data quality has improved with the use of better reporting tools. Five United Nations entities did not provide data for 2007.

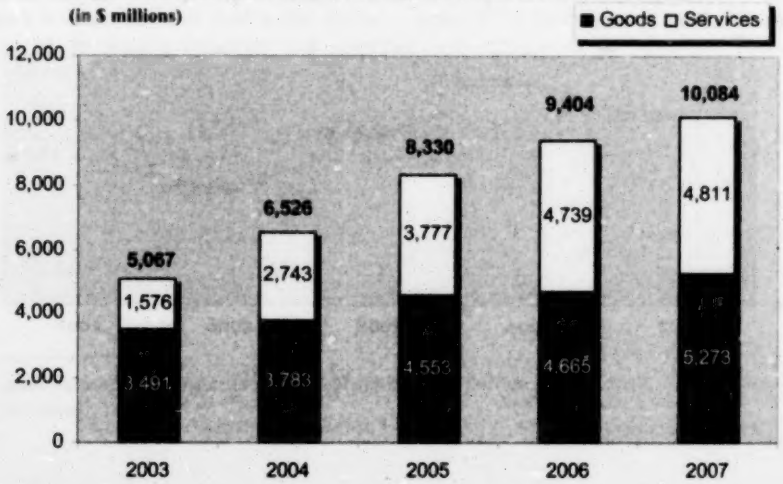
5. Whereas previous reports distinguished between UNDP procurement under national execution or direct execution and procurement by UNDP headquarters, the new format reports on UNDP procurement as a whole (except for UNDP/IAPSO).

6. Data is reported on goods, based on countries of supply, and on services, based on the locations of contractors' head offices. Procurement orders and service contracts are reported by contract amount rather than by expenditures incurred. Most United Nations entities cannot at present report data based on country of origin of goods, or on actual expenditures.

I. Total procurement of goods and services for operational activities of the United Nations system

7. The overall procurement volume – goods and services combined – of United Nations organizations increased to $10.08 billion in 2007 from $9.4 billion in 2006, a gain of about

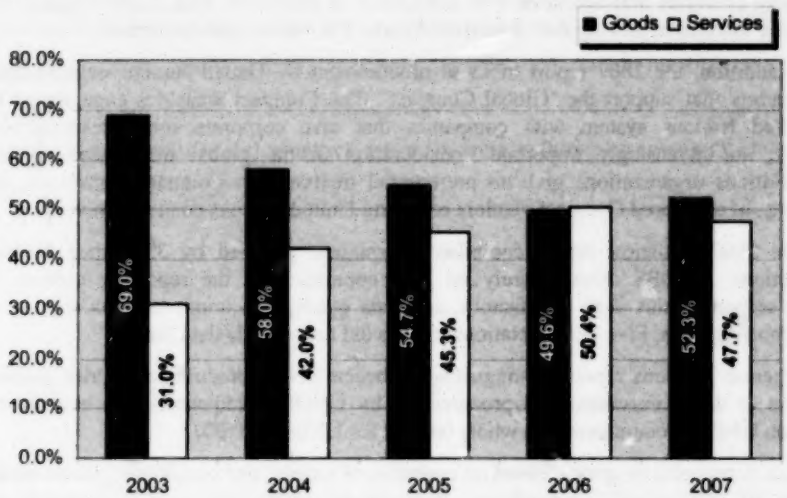
Figure 1. Total procurement of goods and services, 2003-2007



6.7 per cent. Procurement of *goods* went up $608 million, a rise of 2.7 per cent of total procurement volume, while procurement of *services* grew $71 million but decreased its share by 2.7 per cent of total procurement volume. From 2003 to 2007, United Nations procurement doubled in volume from $5.07 billion to $10.08 billion, primarily attributable to a $3.2 billion growth in the procurement of services over the period.

8. From 2003 to 2006, United Nations system procurement of services rose as a share of total procurement, slightly surpassing the procurement share of goods in 2006. The 2007 data show a reversal of this trend: the procurement of goods exceeded that of services by 4.6 per cent.

Figure 2. Proportion of goods and services procured, 2003-2007



II. Top 10 major countries of supply to the United Nations system, 2007

9. The percentage share of total goods and services procured from the top ten suppliers to the United Nations system decreased between 2003 and 2007 (see figure 3). United Nations system sourcing strategies therefore appear to be succeeding in broadening the general distribution of procurement opportunities to vendors.

Figure 3. Percentage share of total procurement volume of the top 10 countries to supply the United Nations system

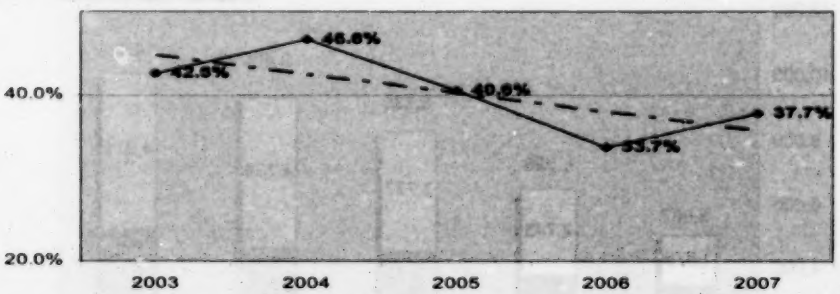


Table 1. Top 10 countries supplying United Nations operations in 2007 (in $ millions)

USA	320.2	394.2	714.4	7.1%
INDIA	511.7	58.7	570.4	5.7%
SWITZERLAND	304.6	98.9	403.5	4.0%
FRANCE	288.4	43.5	331.9	3.3%
ITALY	212.9	98.8	311.8	3.1%
PANAMA	91.7	218.0	309.8	3.1%
UNITED KINGDOM	171.5	123.5	295.0	2.9%
AFGHANISTAN	22.8	267.6	290.4	2.9%
BELGIUM	279.7	10.5	290.1	2.9%
RUSSIAN FEDERATION	48.4	235.4	283.9	2.8%
Top-Ten Total	**2,252.1**	**1,549.2**	**3,801.2**	**37.7%**
Grand Total	**5,273.1**	**4,810.9**	**10,084.0**	**100.0%**

10. The 10 major countries to supply United Nations organizations in 2007 included three developing countries – India, Panama and Afghanistan. India has appeared on the list since 2000, and in 2007 it was the second largest supplier to the United Nations system, with a 5.7 per cent share of total procurement volume. Procurement from India includes pharmaceuticals, medical equipment, cold chain equipment and diagnostic test kits, procured primarily by the United Nations Children's Fund (UNICEF)[1]. Procurement from Panama and Afghanistan mainly took the form of construction contracts executed by UNDP and UNOPS with national vendors.

III. Procurement by United Nations organizations, 2006-2007

11. Table 2, below, lists individual United Nations organization procurement volumes for 2006 and 2007. Data is presented by the percentage share from developing countries and countries with economies in transition. Of the 33 reporting United Nations organizations, 73 per cent increased their procurement volume over the previous year. UNDP recorded the largest volume increase during the period – some $173 million – although for UNDP the share of developing countries and countries with economies in transition decreased by 7.4 per cent.

[1] For further information, please refer to the annual statistical report on procurement, 2007, 'Procurement from developing countries', page 81.

Table 2. Procurement, including percentage procured in developing countries and countries with economies in transition, by United Nations organization, 2006-2007

(in $ millions)

ESCAP	3.1	3.6	6.7	91.0%	5.0	6.3	11.3	89.3%
ESCWA	3.1	1.2	4.3	59.7%	2.4	2.4	4.8	78.3%
ECE	Data included in UNOG figures				Data included in UNOG figures			
ECLAC	1.3	2.3	3.5	74.9%	3.5	6.7	10.2	77.9%
FAO	58.4	41.1	99.5	35.2%	54.0	30.8	84.8	40.5%
IAEA	67.9	29.4	97.3	15.6%	86.2	45.1	131.3	10.2%
IFAD	1.0	24.4	25.5	1.2%	1.6	28.0	29.7	1.1%
ILO	21.6	56.4	78.0	60.0%	32.2	38.1	70.2	43.1%
INSTRAW	Data not submitted				0.1	0.0	0.1	100.0%
ITC	1.2	2.2	3.4	15.8%	1.1	4.4	5.5	14.5%
OPCW	Data not submitted				5.6	10.9	16.6	0.1%
PAHO	227.2		227.2	35.5%	293.8		293.8	36.2%
UNCTAD	0.8	1.7	2.5	98.5%	0.4	1.6	2.0	98.9%
UNDP	656.0	1,595.1	2,251.1	88.0%	627.1	1,797.0	2,424.1	80.6%
UNDP/IAPSO	119.4	19.2	138.7	11.5%	93.0	13.2	106.2	1.3%
UNECA	1.5		1.5	18.1%	4.3		4.3	24.1%
UNESCO	78.0	166.5	244.4	46.8%	66.0	165.2	231.2	47.1%
UN/DPKO	Data included in UN/PS figures				Data included in UN/PS figures			
UNFPA	104.0	26.7	130.7	62.5%	177.9	45.9	223.8	50.1%
UNHCR	52.2	36.9	89.1	30.6%	82.3	45.2	127.5	27.6%
UNICEF	1,207.4		1,207.4	45.4%	1,368.5		1,368.5	47.2%
UNIDO	19.3	33.8	53.1	64.7%	22.5	32.4	54.9	71.3%
UN/PS	947.7	1,047.5	1,995.2	44.5%	873.1	1,031.2	1,904.3	40.6%
UNOG	9.7	22.2	31.8	2.4%	21.8	47.1	68.9	0.8%
UNON	12.4	26.3	38.7	56.7%	14.0	14.0	27.9	30.2%
UNOPS	81.8	475.9	557.7	74.0%	205.9	453.0	658.9	79.6%
UNOV	5.0	5.1	10.1	3.3%	8.0	14.4	22.4	8.0%
UNRWA	103.7	60.6	164.2	83.1%	138.5	41.5	180.1	85.1%
UNU	0.0		0.0	0.00%	0.1	2.6	2.7	13.8%
UNV		2.3	2.3	0.00%	0.9	2.9	3.8	9.6%
UPU	0.5		0.5	69.9%	0.7		0.7	80.0%
WFP	709.6	1,053.0	1,762.7	38.9%	885.5	923.0	1,808.4	43.6%
WHO	132.8		132.8	10.3%	142.1		142.1	23.0%
WIPO	31.9		31.9	2.5%	51.3		51.3	1.6%
WMO	6.8	5.6	12.4	8.3%	3.8	7.9	11.7	12.2%
WTO	0.0	0.1	0.2	86.7%	Data not submitted			
TOTAL	[illegible]							

* Data was not submitted by ICAO, ICTR, ICTYand ITU.

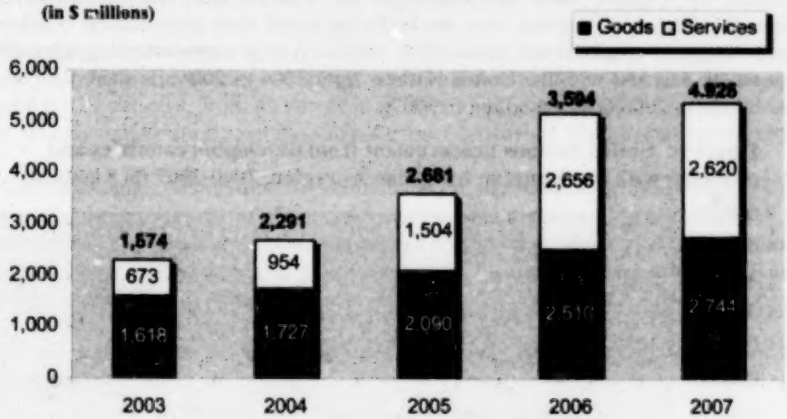
IV. Procurement from developing countries and countries with economies in transition

12. General Assembly resolution 57/279, of January 2003, on procurement reform, encouraged United Nations organizations to increase sourcing opportunities for suppliers from developing countries and countries with economies in transition. General Assembly

resolution 61/246, of March 2007, reiterated the request. In response, United Nations organizations have placed more orders with suppliers from these countries. The growth of such orders has tripled in dollar terms from 2003 to 2007, as shown in figure 4, below.

Figure 4. United Nations procurement from developing countries and countries with economies in transition, 2003-2007

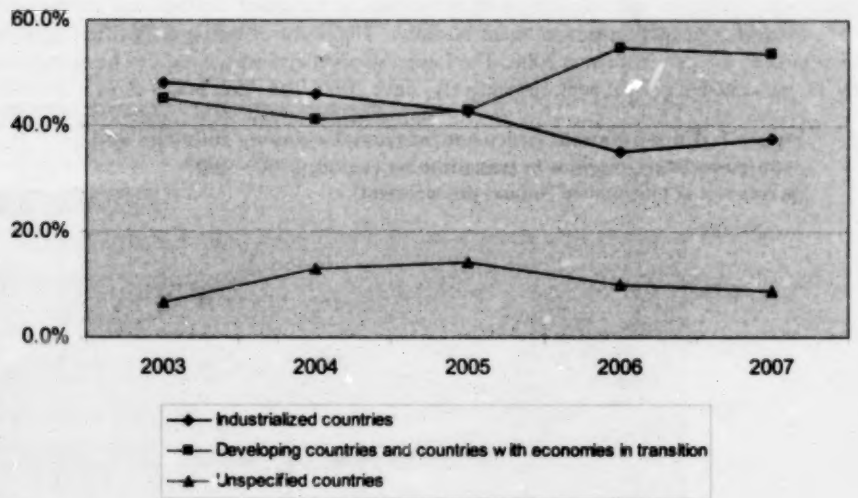
(in $ millions)



13. Although procurement from developing countries and countries with economies in transition increased by $198 million in 2007 over 2006, their share of overall total procurement volume decreased by 1.3 per cent. Of note, procurement from these countries exceeded 50 per cent of total United Nations procurement volume in 2006 (54.93 per cent) and 2007 (53.58 per cent).

Figure 5. United Nations procurement from industrialized countries, developing countries and countries with economies in transition, 2003-2007

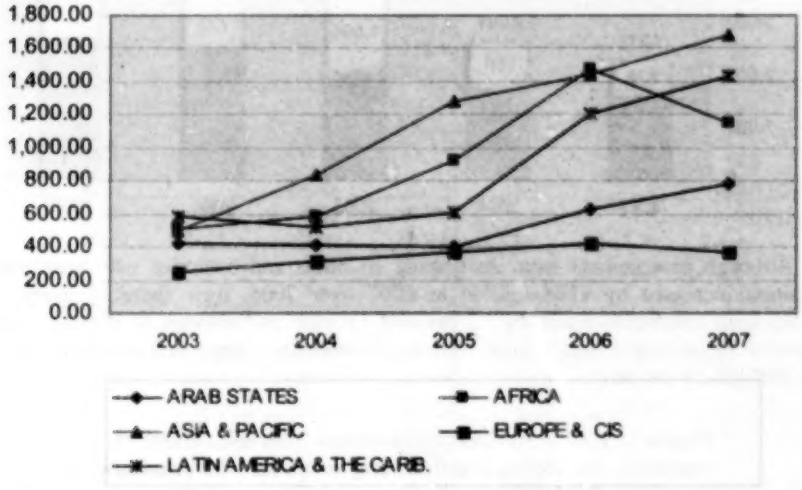
(as a percentage of total procurement volume)



V. Procurement from developing countries and countries with economies in transition, by region

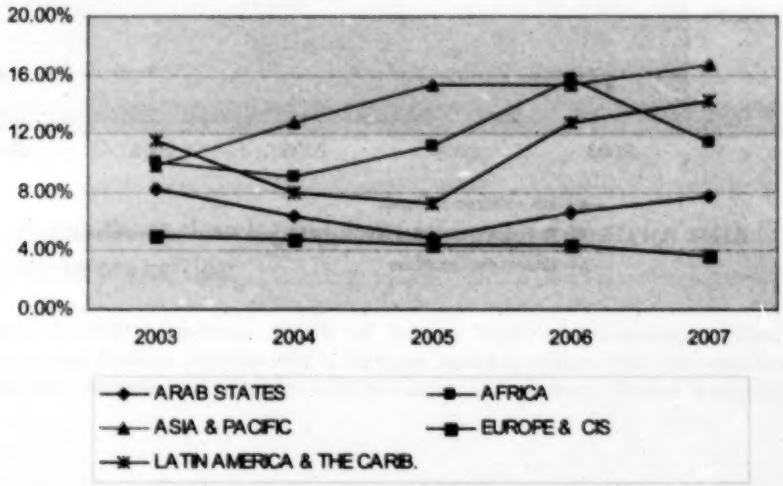
14. Analysis by region of United Nations procurement from developing countries and countries with economies in transition shows that the rising total procurement volume has benefitted all regions since 2003. Except for Europe and the Commonwealth of Independent States, all regions have markedly increased their procurement business with United Nations organizations since 2005. While Africa experienced rapid growth in procurement business with the United Nations from 2004 to 2006, its share declined from $1.47 billion in 2006 to $1.14 billion in 2007.

Figure 6. United Nations procurement from developing countries and countries with economies in transition by region, 2000-2007 (in $ millions)



15. Regional data on the percentage share of United Nations procurement from developing countries and countries with economies in transition confirm that most regions have enjoyed a growth in procurement business. The share of the Asia Pacific region has increased by 8.6 per cent since 2000. The Latin America and Africa regions have increased by 3.6 per cent and 3.1 per cent, respectively, since 2000. The Arab States show a decrease

Figure 7. United Nations procurement from developing countries and countries with economies in transition by region, 2000 – 2007 (percentage of total United Nations procurement)



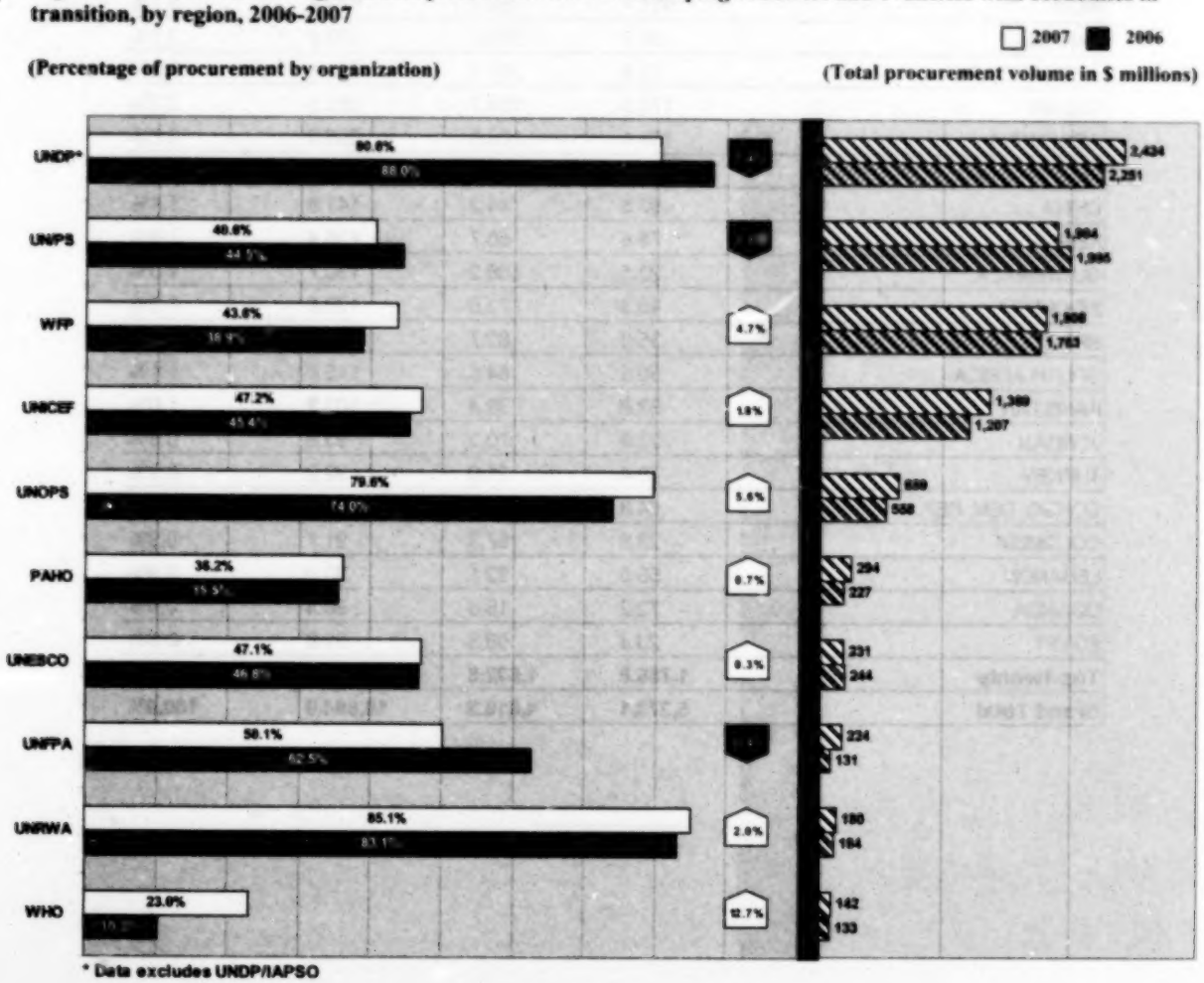
of 0.5 per cent for the period and Europe and the Commonwealth of Independent States decreased their share by 1.4 per cent.

VI. Procurement from developing countries and countries with economies in transition, by United Nations organization

16. The aggregate procurement of goods and services by the 33 reporting United Nations organizations from developing countries and countries with economies in transition increased by 13 per cent, from 48 per cent in 2006 to 61 per cent in 2007, indicating that United Nations organization sourcing strategies have broadened the distribution of vendors.

17. The following graph presents the procurement, in percentages, by the 10 largest United Nations agencies, funds and programmes by procurement volume (91.6 per cent of total procurement) from developing countries and countries with economies in transition in 2007, as well as the percentage change as compared with 2006. (Organizations are listed in descending order of actual volume, detailed in the section to the right in figure 8, below.)

Figure 8. United Nations organization procurement from developing countries and countries with economies in transition, by region, 2006-2007



* Data excludes UNDP/IAPSO

VII. Top 20 developing countries and countries with economies in transition supplying United Nations operations in 2007

18. In total, procurement of goods and services from the top 20 developing countries and countries with economies in transition represents 33.7 per cent of overall United Nations procurement volume, an increase of 1 per cent over 2006. For a detailed overview of procurement volume trends, categories of goods and services procured, as well as the share of each United Nations organization for each of the countries listed in table 3, below, please refer to the complete annual statistical report on procurement, 2007, available at http://ungm.org/default.aspx?pid=87.

Table 3. Top 20 developing countries and countries with economies in transition supplying United Nations operations in 2007

INDIA	511.7	58.7	570.4	5.7%
PANAMA	91.7	218.0	309.8	3.1%
AFGHANISTAN	22.8	267.6	290.4	2.9%
SUDAN	172.8	108.7	281.5	2.8%
ARGENTINA	156.1	108.8	265.0	2.6%
PERU	90.5	93.2	183.7	1.8%
CHINA	97.6	44.2	141.8	1.4%
KENYA	74.6	60.7	135.4	1.3%
GUATEMALA	22.5	108.2	130.7	1.3%
INDONESIA	48.3	72.5	120.8	1.2%
BRAZIL	35.9	82.7	118.6	1.2%
SOUTH AFRICA	50.5	64.5	115.0	1.1%
PAKISTAN	63.8	39.4	103.2	1.0%
JORDAN	23.6	70.3	93.8	0.9%
TURKEY	70.4	21.8	92.2	0.9%
CONGO, DEM. REP.	54.8	37.2	92.0	0.9%
COLOMBIA	23.8	67.3	91.1	0.9%
LEBANON	58.8	32.1	90.9	0.9%
UGANDA	72.2	18.3	90.4	0.9%
EGYPT	23.4	58.3	81.8	0.8%
Top-twenty	**1,766.8**	**1,632.6**	**3,398.6**	**33.7%**
Grand Total	**5,273.1**	**4,810.9**	**10,084.0**	**100.0%**

United Nations DP/2008/52

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United Nations Office for Project Services

The governance structure of the United Nations Office for Project Services*

Proposal to realign the Management Coordination Committee within the current governance arrangements of UNOPS

Summary

The present report proposes adjustments to the Management Coordination Committee to realign its functions within the context of the overall governance structure of the United Nations Office for Project Services (UNOPS). The changes suggested reflect the maturity of UNOPS as an entity since its inception in 1995, and the realities of the environment in which it now operates. They aim to more effectively define and assign accountability for UNOPS in the light of its evolution and future prospects as a self-financed provider of operational services.

The elements of the decision recommended by the Management Coordination Committee are presented below. The present submission to the Executive Board was endorsed by the Secretary-General (annex 2: letter dated 8 August 2008).

Elements of a decision

The Executive Board may wish to (a) endorse the amended role and function of the Management Coordination Committee – to be renamed the Policy Advisory Committee – as outlined in the present report, thereby clarifying accountability and providing a focus on strategic business advice that would enable UNOPS to fulfill its mandate, as a provider of operational services, on a fully self-financed basis; (b) recommend the delegation of human resources authority in relation to UNOPS staff to the Executive Director of UNOPS; and (c) recommend proceeding with the changes to the Financial Regulations and Rules proposed in document DP/2008/52.

*The compilation of data required to provide the Executive Board with the most current information has delayed submission of the present report.

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Introduction

1. This report proposes adjustments to the Management Coordination Committee (MCC) to realign its functions within the context of the overall governance structure of UNOPS. The changes suggested reflect the maturity of UNOPS as an entity since its inception in 1995 and the realities of the environment in which it now operates. They aim to more effectively define and assign accountability for UNOPS in light of its evolution and future prospects as a self-financed provider of operational services.

2. The decision was recommended by the MCC following extensive dialogue and consensus among its members, together with legal advice from the Office of Legal Affairs. The recommendation was subsequently endorsed by the Secretary-General (see annex 2, available on the Executive Board web page).

I. Background

3. UNOPS became a separate and identifiable entity pursuant to General Assembly decision 48/501 of 19 September 1994, in accordance with UNDP Executive Board decision 94/12.2. The original governance arrangements provided for the appointment by the United Nations Secretary-General of an Executive Director to manage UNOPS. The key elements of the governance and oversight structure included:

(a) The UNFPA/UNDP Executive Board, where UNOPS is included as an agenda item in the UNDP segment; and

(b) The MCC (see below for scope).

4. The Users Advisory Group was established "with the responsibility of ensuring that the Office for Project Services is fully aware of the concerns of United Nations organizations and others who utilize its services, and with the responsibility of making appropriate recommendations" (Executive Board decision 94/12). However, the Users Advisory Group only met once (see DP/2002/CRP.5, paragraph 13).

5. UNOPS also reports to the Fifth Committee of the General Assembly, for review primarily of audit findings, and to the Advisory Committee on Administrative and Budgetary Questions (ACABQ), for review primarily of budget submissions and revisions to financial rules and regulations. UNOPS is audited by the United Nations Board of Auditors (BOA).

The Management Coordination Committee

6. The role and functions of the MCC were set out in DP/1994/61 and subsequently approved in Executive Board decisions 94/12, 94/32, and 95/1. The chosen arrangement reflected the historical context: UNOPS was derived from UNDP; there was a close business association between the two organizations; and United Nations wished to exercise sufficient oversight over UNOPS. The UNDP Administrator was designated Chair, and MCC membership included the Under-Secretary General of the United Nations Department for Development Support and Management Services and the United Nations Department of Administrative Services. The Executive Director was appointed Secretary of the MCC.

7. In 2001, the Secretary-General requested the Office of Internal Oversight Services to review these governance provisions in the context of the broader UNDP-UNOPS relationship. The resulting report proposed creating a management board to replace the

MCC, to be chaired by a former high-level UN official who could allocate sufficient time to the function. That recommendation was not accepted by the Secretary-General.

8. In spite of two reviews of UNOPS governance arrangements, the only significant change occurred in 2002, further to DP/2002/CRP.5, when MCC membership was expanded to include major clients of UNOPS (the Division of Peacekeeping Operations and the International Fund for Agricultural Development) as regular members, and the Legal Counsel (or representative) and the United Nations Comptroller (or representative) as ex-officio members. However, there has been no change in the functions of the MCC as originally outlined in DP/1994/61 (annex 1).

9. In 2003 the Executive Board requested an independent review of the UNOPS business model (DP/2003/40). The review pointed out a potential misalignment between authority and accountability as they related to the MCC and the Executive Board, and suggested that the Executive Director chair the MCC.

10. Subsequently, the role of the MCC was on the agenda of the Executive Board in several sessions. Both the MCC and Executive Board chose to defer discussion of this subject to a later date and to concentrate first on improving the financial situation of UNOPS. In 2005 the Executive Director informed the Board (DP/2005/39 chapter VI, paragraphs 65-67, 'Governance: next steps') that he would bring to the January 2006 session recommendations on the functions and composition of the MCC, "taking into account the market environment, likely client base and business requirements". The Executive Board agreed, and scheduled the item for its first regular session 2006 (decision 2005/36). However, the subject was not discussed at that or any subsequent session.

11. In performing its tasks the MCC has convened with varying frequency. As noted in DP/2005/39, "the MCC met intermittently when UNOPS was doing well and more regularly as its financial difficulties increased". Most Under-Secretaries General choose to nominate representatives to attend MCC meetings. IFAD, maybe in part due to having its headquarters in Rome, opted not to participate in most meetings. Certain MCC members were also major clients of UNOPS at times, and tended to focus on their specific interests

12. Over the years, members of the MCC have expressed degrees of discomfort with respect to their role. They have expressed concern that while the MCC formally carried fiduciary supervision and management responsibility, it did not necessarily have detailed or timely information or even the possibility of allocating the time required to exercise its role. In mid-2006, the new Chair questioned the role of the MCC, given the evolution of UNOPS as a distinct entity and to clarify accountability. The matter was discussed by MCC members. The present report contains the MCC recommendation for updating its function and membership.

II. Main reasons for adjusting the governance arrangements

A. The fundamentally changed business reality of UNOPS

13. The original MCC governance arrangement reflected the business and reform circumstances that prevailed during the first half of the 1990s, which led to the creation of UNOPS. Since then the UNOPS service scope has undergone profound transformations, including through Executive Board decisions to expand its service role: (a) decision 2004/3, to cooperate with regional and sub-regional development

banks, (b) decision, 2004/15 to work directly with governments under certain circumstances; and (c) decision 2007/38, on the partial merger of UNOPS with the United Nations Office of Project Services, which authorized UNOPS to provide certain services to Non-Governmental Organizations.

14. While UNDP continues to be a key partner and client of UNOPS, the share of UNDP business has stabilized at around 35 per cent, with a small increase experienced in 2007 and 2008. As recognized in decision 2002/2, UNOPS has progressed in diversifying its client base and has responded to emerging service demands across the organizations of the United Nations system – especially in the areas of peacekeeping and humanitarian and development operations.

15. The relationship of UNDP to UNOPS has changed from that of 'parent' or 'overseer' to that of partner, with UNOPS as a sub-contractor. Where UNOPS management functions were at first closely integrated with those of UNDP, there is now independence. For example, authority with respect to personnel matters has been delegated to UNOPS. While once UNOPS was fully dependent on the UNDP country office network for field implementation, today UNOPS has its own network of regional offices and operations centres at the country level. Administrative services provided to UNOPS by UNDP country offices do not differ from the services provided to other United Nations entities. Like other United Nations Funds and Programmes – such as UNFPA – UNOPS outsources certain functions, including treasury, to UNDP. Significantly, whereas internal audit was formerly carried out by the UNDP Office of Audit and Performance Review, UNOPS now has its own internal audit function.

16. UNOPS has established the Strategy and Audit Advisory Committee, with a similar mandate to that of other comparable United Nations entities. Indeed, the Committee, which advises the Executive Director, offers a viable alternative to some of the oversight or risk management functions originally anticipated for the MCC.

17. In sum, UNOPS has significantly matured as a separate and identifiable entity over the 13 years of its existence. It has put in place the best practice management capacities and tools to facilitate and promote the operational accountability of the Executive Director.

B. Oversight and accountability issues

18. The oversight exercised by the Fifth Committee, ACABQ and BOA is well established. As detailed in DP/2008/6, an oversight and accountability framework, commensurate to those of UNDP and UNFPA, will be presented to the Executive Board in its annual session 2008.

19. The Executive Board has taken an active and most welcome role in dealing with the financial crisis of UNOPS. In 2003 the Board enhanced its exercise of vigorous oversight and guidance of UNOPS strategic direction and activities. Furthermore, in its decision 2007/9 the Board established a schedule for regular reporting by the Executive Director.

20. After a careful review of the historical context, the maturity of UNOPS, and state-of-art approaches to oversight and accountability, the MCC has concluded that the time has come to recommend that the Executive Director be held accountable directly to the Executive Board, as are the Administrator of UNDP and the Executive Director of UNFPA. This requires a revision to the terms of reference of the MCC, which was approved by the Secretary-General.

III. Establishment of a policy advisory committee

21. It is proposed that the role, functions, and composition of the MCC be revised to permit it to perform a policy advisory function. To reflect this new focus, it is suggested that the MCC be renamed the Policy Advisory Committee.

22. This proposed model would entrust the UNOPS Executive Director with full and independent authority and accountability for the conduct of UNOPS business. The Policy Advisory Committee would provide policy guidance to ensure that the strategy and activities of UNOPS corresponded to the broader objectives of the United Nations and that they were coordinated with the work of other entities in order to ensure a complementary approach and avoid overlap. Responsibility for the use of UNOPS financial and other resources would lie with the Executive Director.

Functions of the Policy Advisory Committee

23. Under this proposal, and subject to the approval of the Secretary-General, the Policy Advisory Committee would have the following policy advisory functions:

(a) Provide guidance to UNOPS in developing its strategy and business plan consistent with its self-financing basis; and

(b) Provide guidance on the relationships between UNOPS and other United Nations departments, offices and funds, programmes, agencies and organizations at the organizational level and in the context of United Nations country teams under the resident coordinators/humanitarian coordinators.

Composition and meetings of the Policy Advisory Committee

24. It is proposed that the membership of the Policy Advisory Committee be modified in line with the revised mandate to include the following (with a rotating chair to be nominated annually by the membership):

(a) Administrator, UNDP;
(b) Chair, High Level Committee on Management;
(c) Under-Secretary General, United Nations Department of Management;
(d) Under-Secretary General, United Nations Department for Field Services; and
(e) Under-Secretary General, Office for the Coordination of Humanitarian Affairs.

25. The Legal Counsel (or representative) could participate in the meetings ex officio, but should not be nominated to chair such meetings.

26. It is recommended that the Policy Advisory Committee hold two meetings each year, one prior to the first regular session of the Executive Board and the other prior to its annual session. The Chair or the Executive Director may convene extraordinary meetings as required.

IV. Reporting relationships

27. In line with the proposed modification of the MCC, the Executive Director will be accountable directly to the Executive Board. The Executive Director will report periodically to the Executive Board on the guidance received from the Policy Advisory Committee as may be required when policy issues are addressed by the Board and in the form of an attachment to its Annual Report. This proposal would require amendments to the Financial Rules and Regulations of UNOPS as follows:

Regulation 3.1, under C. Accountability, Article III

"The Executive Director is accountable for UNOPS activities to the Executive Board and to the Secretary-General."

Add: "The Policy Advisory Committee shall provide policy guidance to UNOPS."

Regulation 8.3

"Harmonization with UNDP and UNFPA is sought as follows:

(a) Within the UNOPS Account, an operational reserve shall be established at a level set by the Executive Board. The Operational Reserve, the purpose of which is to guarantee the financial viability and integrity of UNOPS, shall be fully funded and held in irrevocable and promptly available liquid assets. The elements to be compensated for and covered by it shall be limited to:

(i) Downward fluctuations or shortfalls in resources;
(ii) Uneven cash flows;
(iii) Increases in actual costs as compared to planning estimates or fluctuations in delivery; and
(iv) Other contingencies which result in a loss of resources for which UNOPS has made commitments for programming;

(b) The decision to make a drawdown from the operational reserve shall rest solely with the Executive Director, who will report all draw-downs to the Executive Board at its next regular session, and between sessions, to the members of the Executive Board, as may be prescribed by the Board, or whenever, in the opinion of the Executive Director, the situation so merits;"

Regulation 9.2, under E. Administration of Resources, Article IX.

"The Secretary-General may delegate to the Administrator of UNDP such authority with respect to custody of funds as would facilitate the efficient and effective management of UNOPS income as well as resources entrusted to the charge of UNOPS, and such delegated authority may be accepted by the Administrator of UNDP in writing."

Replace: "Administrator of UNDP" *with* "Executive Director of UNOPS".

Regulation 10.1: under E. Administration of Resources, Article X.

"Subject to confirmation by the UNDP Administrator that there are no conflicts with applicable UNDP Financial Regulations, to which these Regulations are an annex, the Executive Director may, in consultation with the Management Coordination Committee, establish detailed financial rules for UNOPS to ensure effective financial administration and the exercise of economy, and circulate the Financial Rules to Members of the Executive Board for information at least 30 days before they become

effective. The Executive Director may establish procedures consistent with these Regulations for implementation of such financial rules."

Delete: ", in consultation with the Management Coordination Committee,".

Delegation of human resources authority in relation to UNOPS staff to the UNOPS Executive Director

28. At present, the UNDP Administrator delegates human resources authority to the UNOPS Executive Director. Under the proposed arrangements, the Secretary-General would grant human resources authority in relation to UNOPS staff directly to the UNOPS Executive Director.

Annex 1*

Original functions of the Management Coordination Committee

29. The functions of the MCC, as set out in document DP/1994/61, include:

(a) Providing guidance to UNOPS in developing its strategy and business plan, and ensuring that UNOPS provides on a self-financing basis: implementation services for programmes and projects, management and other support services; and loan administration;

(b) Ensuring the appropriateness of the legal framework in line with the self-financing principle and the resultant requirement for UNOPS to work in a business-like manner;

(c) Reviewing the operational policies of UNOPS and approving any changes thereto in order to enable it to carry out its role within the legislative framework provided by the General Assembly and the Executive Board;

(d) Reviewing and authorizing, for submission to the appropriate approving authorities, the annual programme and budget of UNOPS and related documentation;

(e) Ensuring the responsiveness of UNOPS to users of its services. In carrying out this function, the MCC also ensures that UNOPS gives due consideration to recommendations emanating from the UNOPS Users Advisory Group;

(f) Guiding the relations of UNOPS with United Nations departments, UNDP and its country offices, and other United Nations agencies and organizations;

(g) Reviewing and evaluating UNOPS performance and effectiveness; and

(e) Ensuring that adequate administrative support services are available to UNOPS on a cost-effective basis.

*For annex 2, a letter from the Secretary-General dated 8 August 2008 please see the Executive Board web page.

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The role of UNDP in the changing aid environment at the country level* (Supplementary report to DP/2008/36)

Summary

At its June 2008 session, the Executive Board "*endorse[d]*, in principle, a four-year pilot period, starting in September 2008, for enabling UNDP financial contributions to pooled funding and sector budget support, on a case-by-case basis, upon the request of the recipient country and in accordance with the mandate and comparative advantage of UNDP, within the limitations and provisions provided in document DP/2008/36" (decision 2008/24).

In the same decision, the Executive Board requested UNDP to "prepare an additional report for approval by the Executive Board at its second regular session 2008, including: (a) an update on the common approach among the members of the United Nations Development Group towards the changing aid environment; (b) an analysis of the role of UNDP in the new aid environment, also in relation to other development partners, while emphasizing the further efforts of UNDP to achieve greater harmonization and alignment; and (c) a further elaboration of the criteria of engagement in sector budget support and pooled funding, and indicators to measure the effectiveness of this new aid modality". The present report responds to that request.

Elements of a decision

The Executive Board may wish to: (a) approve this report as a follow-up to document DP/2008/36 and as a response to the request of Executive Board Decision 2008/24 for an additional report; and (b) encourage UNDP to pursue this approach with the United Nations Development Group to ensure synergy and common approaches in the United Nations system response to the changing aid environment.

*The compilation of data required to provide the Executive Board with the most current information has delayed submission of the present report.

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I. Introduction

1. In response to the request of the UNDP Executive Board at its annual session 2008, the present report outlines the UNDP response to the changing aid environment, and its engagement with the United Nations Development Group (UNDG) on a common approach in this context. The report also provides indicators for measuring effectiveness and evaluating the process by which the results of the pilot period for UNDP engagement in sector budget support and pooled funding would be evaluated (see decision 2008/24, paragraph 6).

2. The positions expressed in the present report are based on the spirit and the letter of the General Assembly resolution on the Triennial Comprehensive Policy Review of operational activities for development of the United Nations system (General Assembly resolution 62/208) as well as that of the UNDP strategic plan, 2008-2011 (DP/2007/43/Rev.1). The report also reflects – as does the Triennial Comprehensive Policy Review – the related international commitments and agreements on financing for development, the Millennium Development Goals, and efforts to improve the quality of aid.[1]

3. The present report builds on document DP/2008/36 concerning UNDP engagement in direct budget support and pooled funds, which was submitted to the Executive Board at its annual session 2008.

4. The inclusion of direct budget support within the spectrum of aid modalities is seen as a further step towards strengthened country ownership and capacities, and increased rationality and cost-effectiveness in the management of development assistance. Direct budget support is defined as a method of financing the budget of a partner country through a transfer of resources from an external financing agency to the national treasury of the partner government (see DP/2008/36). It supplements public expenditure on nationally agreed priorities. General budget support is an unearmarked contribution directed at overall government policy and expenditures, while sector budget support is an earmmarked contribution to the national budget towards sector- or programme-specific results.

5. Fund management arrangements under direct budget support can result in a pooled fund arrangement (also called basket funds), relating to a specific sector, thematic programme or plan. Pooled funds involve a group of donors agreeing to pool their resources collectively, under a common fund management arrangement, led by a designated donor or government agency.[2] Pooled funds may or may not make use of government procedures. Hence, sector budget support is a specific type of pooled funding that (a) supports a whole sector programme; and (b) makes full use of government budget execution, procurement and financial management systems. The progression towards pooled funds emanates from countries that have experienced common and agreed sector plans and programmes, where government and donor partners have come together under a common strategic policy and programme

[1] Monterrey Financing for Development Consensus (2002), World Summit Outcome Document (2005). The Financing for Development commitments, including the quality of aid, are key financial instruments linked to development effectiveness objectives and achievement of the Millennium Development Goals.

[2] Such an arrangement often remains outside the treasury, funding a subset of a sector strategy or national programme. Funds can be pooled to finance a single activity, project, a sub-programme, or a whole sector programme.

framework. Providing funds in a common pool that supports an agreed common sector approach or plan is therefore seen as a natural extension in this process, i.e., from a common plan and programme to a common funding window to support that sector plan or programme. This further enhances harmonization and alignment at country level.

II. A common approach among the United Nations Development Group in the changing aid environment

> "[…] operational activities for development of the United Nations system should be, inter alia, their universal, voluntary and grant nature, their neutrality and their multilateralism, as well as their ability to respond to the development needs of programme countries in a flexible manner, and that the operational activities are carried out for the benefit of programme countries, at the request of those countries and in accordance with their own policies and priorities for development"
>
> *Source:* Triennial Comprehensive Policy Review, A/RES/62/208, Introduction, paragraph 3

6. The members of the UNDG recognize that the current aid environment offers new opportunities for efficient development financing through a series of international commitments on aid quality and a diversity of aid modalities and development assistance actors. However, the persisting challenges remain, which are to ensure more coherence and harmonization among multiple development partners, strong country leadership, alignment of aid with the country-defined development plans and priorities, as well as the use of national systems for delivery of aid.[3]

7. In February 2005, UNDG issued a position paper titled "The role of the United Nations system in a changing aid environment: sector support and sector programmes". This paper set out four key functions of the United Nations system in sector programmes: (a) conceptual role/coherence with regards to policy dialogue; (b) convening critical meetings and processes; (c) capacity development, such as strengthening financial and programme management systems; and (d) contribution, recognizing that while financial contributions are not the defining factor of United Nations engagement, there can be circumstances where a financial contribution is appropriate. UNDG is currently reviewing a and analysing the paper and working to harmonize financial regulations and rules.

8. In January 2008, UNDG published another, broader joint paper on this topic with the title "The role of the United Nations in the changing aid environment". That paper brings together country-level experience and lessons stemming from various measures undertaken at the UNDG level. While noting that the United Nations system, as a trusted partner, has made significant contributions to shaping and responding to the changing aid environment, it acknowledges that the United Nations system has to meet the remaining challenges mentioned above. The paper will be followed by a guidance note for United Nations country teams to assist them in addressing those challenges.

[3] See papers presented in the following paragraphs, available at http://www.undg.org/index.cfm?P=219; assessments conducted by UNDP and UNDG; and subsequent reports (2006-2008).

9. The role of the United Nations development system at country level is neither that of a major financier nor that of traditional donor.[4] the United Nations development system facilitates the access of countries to sources of development finance; provides policy and technical services, as needed; and strengthens national capacities to respond to continuing and emerging challenges. The United Nations Development Assistance Framework (UNDAF) provides the basis for United Nations development system financing for policy and programme support, This instrument outlines the overall United Nations support to the development priorities of each country.

10. The resident coordinator system and United Nations country teams are tasked with intensifying capacity development interventions in support of country-owned aid policy, national aid coordination mechansims and aid management (including aid management systems). Policy and technical services provided to support transparent financial management, the promotion of peer learning, and capacity development through cross-country exchanges in areas such as leadership skills, diagnostic and implementation capacities, knowledge services and training, as well as institutional reform, are capacity-enhancing efforts funded through individual projects as well as through sector programmes financed using the mechanism of pooled funds.

11. The above-mentioned services are offered with a common recognition of the comparative advantage of the United Nations development system, with its neutrality and universality, in a changing aid environment and in line with the Triennial Comprehensive Policy Review, 2007. This makes possible critical inter-governmental actions in which the characteristics of multilateralism are most in demand – to service global norms and standards; to support global public goods and services; and to help address development challenges, such as post-conflict situations, as well as emerging challenges, such as climate change and food crises. The UNDG approach and response to the changing aid environment recognizes country specificity and the need to adapt of approaches and instruments to the local aid and development finance context.

III. UNDP response to the changing aid environment

12. The goal of UNDP is to advance human development by expanding opportunities and deepening people's ability to reach their development potential. To make that happen, the core contribution of UNDP is strengthening national capacities in a way that supports human development. UNDP support, whether financed through nationally-executed and implemented programmes and projects or through sector budget support funds and pooled funds, remains the same: (a) within its given mandate areas, (b) in sectors where it is already participating; and (c) in connection with its capacity development role and support at the country level. ('Sector' in this respect refers to a programmatic area in which UNDP is already working.)

13. UNDP supports and contributes as a primary partner to the UNDG efforts described in the chapter II, above. UNDP co-chaired the UNDG working group on aid effectiveness and has been tasked to lead, with UNFPA, the follow-up workstream on aid effectiveness in the newly established UNDG working group on programme issues.

[4] The total official development assistance channeled through the United Nations annually is approximately $17.2 billion (2006; *Comprehensive statistical analysis of the financing of operational activities for development of the United Nations system for 2006*; A/63/71).

14. In complementarity with the work of the United Nations system and other development partners, UNDP interventions to enhance aid effectiveness focus on strengthening country capacities to design national aid policies and plans; map external resource needs; access development finance for ongoing and emerging needs; and strengthen national systems, irrespective of the funding modality. In line with the common UNDG approach,,[5] the emphasis is on strengthening national capacities by facilitating capacity assessments and formulating capacity development strategies intended to strengthen country aid management and implementation. This includes the coordination of development finance and support to national monitoring and accountability instruments to track the impact of aid. Furthermore, through its expertise and substantive contribution, UNDP, upon demand from host country governments, supports resident coordinators in determining the role of the United Nations system and its positioning in the aid environment.

15. In this context, and based on increasing demand, UNDP is helping to facilitate and negotiate aid modalities, including direct budget support.[6] This is well in keeping with the Triennial Comprehensive Policy Review resolution of 2004, which asked the United Nations system to "support national capacities for the management of various aid modalities, including system-wide approaches and budget support" (A/RES/59/250). The 2007 resolution (A/RES/62/208, paragraph 103) takes this resolution one step further, and explicitly "[e]ncourages that the United Nations development system be invited to participate, ex officio, in current and new aid modalities and coordination mechanisms at the request of the programme country, and invites the United Nations development system to enhance its participation in this regard". While acknowledging that direct budget support is not the core business of UNDP, UNDP recognizes it as a development finance instrument that promotes national ownership, transparency and harmonization in aid allocations, and alignment with national plan and budget priorities.

16. UNDP will not engage in general budget support, which is a general transfer to the national budget. The rationale for UNDP engagement in sector budget support and pooled funds is to respond to growing country demands for capacity development and for expanded inclusion of UNDP in efforts towards harmonization and alignment. UNDP will only engage in pooled funding in areas or sectors in which it is already present through a separate project (see DP/2008/36).

17. UNDP support can take the form of a capacity development initiative and policy advisory services through (a) a standard UNDP project; (b) managing a pooled fund upon request by a government; (c) signing on to a sector budget support fund or a pooled fund as a non-fund provider or "signatory withouth fiduciary obligation", or becoming a non-signatory with observer status in the respective partnership group; or (d) a financial contribution to a sector budget support fund or to a pooled fund. Alternatively, it could be an appropriate combination of these options if so required (DP/2008/36).

18. The value-added role of UNDP engagement in sector budget support and pooled funds, as a response to country demand, is above all to strengthen two aspects of country capacities: (a) the capacities of the national entities negotiating, managing and

[5] This approach was also espoused in the UNDG 'Position Statement on Capacity Development' (December 2006) and the 'UNDG Capacity Assessment Methodology User Guide' (May 2008).

[6] Evidenced through regular electronic network discussions among a 250-plus strong community of aid effectiveness practitioners; feedback on direct budget support and pooled funds from numerous country offices.

overseeing sector-wide approaches in UNDP mandate areas, as set out in the UNDP strategic plan, 2008-2011; and (b) involvement in sector budget support and pooled funds that support such sector-wide approaches to ensure that the totality of the support focuses on national capacity development, and is not an add-on or de-linked effort. Participation in sector budget support and pooled funds in the areas of the UNDP mandate is,therefore seen as a natural corollary to its capacity development role and focus. ('Sector' in this respect refers to a programmatic area in which UNDP is already working.)

IV. Implementing UNDP engagement in sector budget support/ pooled funds and measuring the effectiveness of the pilot period

19. Document DP/2008/36 sets out the limitations, criteria and provisions for UNDP to engage in sector budget support and pooled funding. UNDP will issue internal operational guidance to its country offices specifying the criteria outlined in document DP/2008/36, as well as operational and reporting requirements for direct financial contributions, including checklists in that regard.

20. The overarching principles for UNDP engagement are that sector budget support and pooled funding must: (a) contribute to strengthening partner countries' ownership; (b) enhance the performance and accountability of programme countries' public financial management systems; (c) seek to minimize transaction costs incurred by participating countries; (d) be delivered in a way that enhances the predictability of resources and reduces their volatility.

21. Robust monitoring and quality assurance capacities will be required in country offices, to keep abreast of, and fully participate in, the monitoring of development results and review process. The above-mentioned guidelines and checklists will support country monitoring and reporting.

22. Any memorandum of understanding for a sector budget support fund or a pooled fund that UNDP is considering becoming engaged in must include agreed criteria on joint monitoring and evaluation of contributions to sector budget support funds and pooled funds, minimizing separate reviews and evaluation missions. During the pilot period, the annual report of the Administrator will include a progress report on the pilot, and the annual review of the financial situation will contain an overview of financial contributions to pooled funding and sector budget support.

23. At the end of the pilot period, UNDP will prepare a report that will include:

(a) An evaluation of the pilot on the basis of the criteria outlined in document DP/2008/36 and further specified in this document; and

(b) An update on UNDP efforts towards the harmonization of regulations and rules under consideration in the UN, including the changes needed to allow participation in pooled funding and sector budget support.

24. To measure the value and effectiveness of UNDP engagement in sector budget support and pooled funding during the pilot period, the comprehensive evaluation of the pilot period involving major stakeholders will focus on assessing the following parameters of organizational effectiveness:

(a) Has UNDP engagement in sector budget suport and pooled funds contributed to a greater policy and advocacy role for UNDP in the given mandate area?

Indicators: UNDP, as partner in the sector budget support or pooled fund, has increased engagement with national partners on policies and programmes underpinning that sector strategy/plan; UNDP is involved in the monitoring and evaluation of sector results.

(b) Has UNDP engagement in sector budget support and pooled funds contributed to an increased use of country systems, as well strengthened capacities of the relevant country systems – for example, procurement, public financial management, and audit?

Indicators: UNDP has increased its use of national systems; UNDP has contributed to strengthening related country capacities through tailor-made capacity development initiatives; the performance and accountability of public financial management systems in programme countries has been enhanced.

(c) Has UNDP engagement in sector budget support and pooled funds resulted in economies of scale and thus reduced transaction costs for the government and for UNDP freeing up capacities, and if so, how?

Indicators: Extent of reduction in transaction costs to determine business efficiencies; change in business processes resulted in increased time and cost efficiencies and thus a reduced burden on the government vis-à-vis management and administration, in relation to separate project management costs.

(d) Has UNDP engagement in sector budget support and pooled funds made a difference in harmonization and alignment at the country level?

Indicators: The involvement of the United Nations development system in that sector, through the sector budget support or pooled fund, is more aligned and harmonized; UNDP involvement and processes in the area of the sector budget support or pooled fund is more aligned with national systems; joint missions, joint evaluations, joint reviews, and joint reporting have increased, freeing up government capacities.

(e) In case of direct financial contributions to a sector budget support fund or a pooled fund, is there sound monitoring and oversight in the respective fund, in keeping with the relevant memorandum of understanding?

Indicators: The roles for UNDP as detailed in the memorandum of understanding are adhered to by all parties; the UNDP country office has the capacity to monitor and oversee UNDP engagement in the sector budget support or pooled fund in that sector.

25. Pursuant to decision 2008/24, and within the limitations and provisions set forth in this report and in document DP/2008/36, UNDP will proceed with the four-year pilot period, starting in September 2008. UNDP will organize regular informal consultations with its Executive Board on progress with the pilot and the preparation of the reports requested in the present decision.